

PERRY COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2018

PERRY COUNTY SCHOOL DISTRICT

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PERRY COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Members of Perry County Board of Education
Hazard, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Perry County School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits in the Kentucky Public School District's Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Perry County School District, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in the notes to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – which replaces GASB Statement No. 45, for the year ended June 30, 2018. Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and pension/OPEB supplemental reporting referred to in the table of contents on pages 4–9 and pages 58-62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Perry County School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of the Perry County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Perry County School District's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 15, 2018

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2018

As management of the Perry County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The District's cash balance at June 30, 2018, including activity funds was \$13,859,764. Of this amount, \$6,574,310 is restricted for future construction and \$366,247 was activity fund cash. The beginning cash balance at July 1, 2017 was \$18,091,180 for which \$10,669,405 was restricted and \$378,382 was activity fund cash.
- Interest revenue totaled \$90,910 for the year ended and for the prior year the total interest revenue was \$59,645.
- The District's total long-term debt principal reductions were \$3,029,898.
- Total general fund revenue was \$35,350,968 consisting primarily of state program (SEEK), property, utilities, and motor vehicle taxes. Excluding general fund transfers, there were \$33,006,221 in general fund expenditures. General fund revenue and expenditures include \$8,993,751 in state on-behalf payments.

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2018

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2018, assets exceeded liabilities by \$12,500,516.

The greatest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net position for the year ended June 30, 2018

Below is a comparison of net position:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Current assets	17,194,701	19,796,897
Noncurrent assets	73,493,414	70,431,591
Deferred outflows of resources	<u>5,389,054</u>	<u>2,101,865</u>
<u>Total assets and outflows of resources</u>	<u>96,077,169</u>	<u>92,330,353</u>
Current liabilities	6,100,409	7,579,208
Noncurrent liabilities	75,671,473	61,438,020
Deferred inflows of resources	<u>1,804,771</u>	<u>-</u>
<u>Total liabilities and inflows of resources</u>	<u>83,576,653</u>	<u>69,017,228</u>
- Net position -		
Investment in capital assets (net of debt)	23,960,335	17,814,288
Restricted	8,694,546	12,459,677
Unrestricted (deficit)	<u>(20,154,365)</u>	<u>(6,960,840)</u>
<u>Total net position</u>	<u>12,500,516</u>	<u>23,313,125</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>96,077,169</u>	<u>92,330,353</u>

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2018

The following are significant current year transactions that impact the Statement of Net Position:

- Decrease in current assets primarily a result of use of cash for West Perry building construction, \$5,527,123 restricted cash decrease, construction fund.
- Increase in non-current assets primarily reflects additional expenditures in current fiscal year for project completion at West Perry Elementary.
- Non-current liabilities reflect recognition of increases in unfunded pension liabilities relative to GASB 68 and the effects of unfunded OPEB liabilities under GASB 75.

The following table presents a comparison of statement of activities for the fiscal years ended June 30, 2018 and 2017:

	For Year Ended June 30,	
	<u>2018</u>	<u>2017</u>
Revenues:		
Local revenue sources	8,316,512	9,145,131
State revenue sources	39,530,695	40,207,134
Federal revenue	<u>8,428,043</u>	<u>8,943,955</u>
<u>Total revenues</u>	<u>56,275,250</u>	<u>58,296,220</u>
Expenses:		
Instruction	30,009,457	31,561,893
Student support services	2,007,850	1,766,414
Instructional support	2,334,183	2,273,951
District administration	970,394	1,072,601
School administration	2,394,829	2,741,707
Business support	1,312,981	1,367,853
Plant operation	4,767,832	5,385,278
Student transportation	3,359,809	3,706,221
Food service operations	4,787,093	4,527,320
Community services	564,605	655,049
Day care operations	87,931	109,536
Interest on long-term debt	<u>998,061</u>	<u>1,077,587</u>
<u>Total expenses</u>	<u>53,595,025</u>	<u>56,245,410</u>
<u>Change in net position</u>	<u><u>2,680,225</u></u>	<u><u>2,050,810</u></u>

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2018

- Current year expense reflects governmental fund depreciation in the amount of \$2,410,338. Prior year expense reflects governmental fund depreciation in the amount of \$1,948,334.
- Local property tax comparisons at 2018 and 2017 are as follows: General property tax – \$2,882,232 and \$2,804,533; unmined minerals tax - \$289,357 and \$396,926; motor vehicle tax - \$894,220 and \$899,981 and utility tax revenue, \$1,496,692 and \$1,564,534.
- State revenue sources include adjustments for differences in actuarially determined pension expense and amounts actually contributed.
- SEEK program fiscal year end General Fund revenue was \$18,921,201 for year ending June 30, 2018 and for 2017 was \$17,820,786
- Federal revenue and related expenditures per schedule of federal awards for 2018 is \$7,718,119 and for 2017 was \$8,813,352.

BUDGET COMPARISONS

The following table presents a comparison of budget to actual for the general fund for the fiscal year ended June 30, 2018:

	<u>Budget</u> <u>2018</u>	<u>Actual</u> <u>2018</u>	<u>Variance</u> <u>I (D)</u>
Revenues:			
Local revenue sources	5,910,000	6,477,293	567,293
State revenue sources	25,653,201	28,819,944	3,166,743
Federal revenue sources	<u>50,000</u>	<u>53,731</u>	<u>3,731</u>
<u>Total revenues</u>	<u>31,613,201</u>	<u>35,350,968</u>	<u>3,737,767</u>
Expenses:			
Instruction	18,587,515	19,730,145	(1,142,630)
Student support services	1,592,392	1,698,500	(106,108)
Instructional support	664,492	938,461	(273,969)
District administration	1,016,778	832,691	184,087
School administration	2,023,719	2,085,793	(62,074)
Business support	951,758	1,128,179	(176,421)
Plant operation and management	4,224,562	3,943,072	281,490
Student transportation	2,384,885	2,348,125	36,760
Community services	6,205	17,309	(11,104)
Debt service	283,946	283,946	-
Contingencies	<u>3,369,539</u>	<u>-</u>	<u>3,369,539</u>
<u>Total expenses</u>	<u>35,105,791</u>	<u>33,006,221</u>	<u>2,099,570</u>
<u>Excess (deficiency) of revenue over expenditures</u>	<u>(3,492,590)</u>	<u>2,344,747</u>	<u>5,837,337</u>

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2018

- Actual revenues and expenditures reflect General Fund state on behalf payments in the amount of \$8,993,751.
- Variances in Instruction, \$1,142,630 is primarily the result of budgeted on-behalf, \$4,417,500 and actual on-behalf, \$6,512,594.
- Budgeted debt service includes payments made related to KISTA bus purchases.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$3,369,539 in contingency (9.57%) for the fiscal year ended June 30, 2018.

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same. The District has assessed and considered underlying economical and funding factors at the federal, state, and local level and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent years budgets.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 439-5813.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITIONAt June 30, 2018

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Assets:			
- Current assets -			
Cash and cash equivalents - unrestricted	5,309,519	-	5,309,519
Cash and cash equivalents - restricted	6,573,148	1,610,850	8,183,998
Interfund receivable	1,553,485	-	1,553,485
Accounts receivable:			
Taxes - current	122,971	-	122,971
Taxes - delinquent	14,094	-	14,094
Other	163,836	-	163,836
Intergovernmental - state	12,596	-	12,596
Intergovernmental - indirect federal	1,540,037	243,704	1,783,741
Inventories	-	50,461	50,461
<u>Total current assets</u>	<u>15,289,686</u>	<u>1,905,015</u>	<u>17,194,701</u>
- Noncurrent assets -			
Capital assets - non-depreciable	8,894,021	-	8,894,021
Capital assets - depreciable (net)	64,346,032	134,012	64,480,044
Unamortized discounts on bonds payable	119,349	-	119,349
<u>Total noncurrent assets</u>	<u>73,359,402</u>	<u>134,012</u>	<u>73,493,414</u>
Deferred Outflows of Resources			
Deferred outflows - pension/OPEB resources	4,518,722	870,332	5,389,054
<u>Total assets and deferred outflows of resources</u>	<u>93,167,810</u>	<u>2,909,359</u>	<u>96,077,169</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION (Continued)

At June 30, 2018

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Liabilities:			
- Current liabilities -			
Interfund payable	1,545,214	8,271	1,553,485
Accounts payable	263,139	13,168	276,307
Current portion of sick leave payable	174,470	-	174,470
Current portion of bond/lease obligations	3,039,649	-	3,039,649
Current portion of KSBIT obligation	28,036	-	28,036
Interest payable	<u>1,028,462</u>	<u>-</u>	<u>1,028,462</u>
<u>Total current liabilities</u>	<u>6,078,970</u>	<u>21,439</u>	<u>6,100,409</u>
- Noncurrent liabilities -			
Long term portion of accrued sick leave payable	162,036	-	162,036
Long term portion of KSBIT obligation	56,073	-	56,073
Unamortized premium on bonds payable	12,634	-	12,634
Noncurrent portion of bond/lease obligations	45,452,334	-	45,452,334
Net pension/OPEB liability	<u>26,675,159</u>	<u>3,313,237</u>	<u>29,988,396</u>
<u>Total noncurrent liabilities</u>	<u>72,358,236</u>	<u>3,313,237</u>	<u>75,671,473</u>
 <u>Total liabilities</u>	 <u>78,437,206</u>	 <u>3,334,676</u>	 <u>81,771,882</u>
 Deferred inflows of resources - pension/OPEB related	 <u>1,533,004</u>	 <u>271,767</u>	 <u>1,804,771</u>
<u>Total deferred inflows of resources</u>	<u>1,533,004</u>	<u>271,767</u>	<u>1,804,771</u>
 Net position:			
Net investment in capital assets	23,826,323	134,012	23,960,335
Restricted for:			
Sick Leave	162,617	-	162,617
Other	6,648,353	1,883,576	8,531,929
Unrestricted (deficit)	<u>(17,439,693)</u>	<u>(2,714,672)</u>	<u>(20,154,365)</u>
<u>Total net position</u>	<u>13,197,600</u>	<u>(697,084)</u>	<u>12,500,516</u>
 Total liabilities, deferred inflows of <u>resources and net position</u>	 <u>93,167,810</u>	 <u>2,909,359</u>	 <u>96,077,169</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2018

		Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
	<u>Expenses</u>			
FUNCTIONS/PROGRAMS:				
- Governmental Activities -				
Instruction	30,009,457	-	(14,666,924)	-
Support services:				
Student	2,007,850	-	(696,968)	-
Instructional staff	2,334,183	-	(1,846,338)	-
District administration	970,394	-	(325,039)	-
School administration	2,394,829	-	(799,397)	-
Business support	1,312,981	-	(438,275)	-
Plant operation & management	4,767,832	-	(1,672,523)	-
Student transportation	3,359,809	-	(1,375,853)	-
Food service operations	33,566	-	(33,566)	-
Community services operations	564,605	-	(656,294)	-
Interest on long-term debt	<u>998,061</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total governmental activities</u>	<u>48,753,567</u>	<u>-</u>	<u>(22,511,177)</u>	<u>-</u>
- Business-type Activities -				
Food service	4,753,527	(254,707)	(4,375,937)	-
Day care	<u>87,931</u>	<u>(82,951)</u>	<u>-</u>	<u>-</u>
<u>Total business-type activities</u>	<u>4,841,458</u>	<u>(337,658)</u>	<u>(4,375,937)</u>	<u>-</u>
<u>Total primary government</u>	<u>53,595,025</u>	<u>(337,658)</u>	<u>(26,887,114)</u>	<u>-</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIES (continued)For the Year Ended June 30, 2018

	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Governmental</u>	<u>Business-</u>	
	<u>Activities</u>	<u>Type</u>	<u>Total</u>
		<u>Activities</u>	
	(15,342,533)	-	(15,342,533)
	(1,310,882)	-	(1,310,882)
	(487,845)	-	(487,845)
	(645,355)	-	(645,355)
	(1,595,432)	-	(1,595,432)
	(874,706)	-	(874,706)
	(3,095,309)	-	(3,095,309)
	(1,983,956)	-	(1,983,956)
	-	-	-
	91,689	-	91,689
	<u>(998,061)</u>	<u>-</u>	<u>(998,061)</u>
	<u>(26,242,390)</u>	<u>-</u>	<u>(26,242,390)</u>
	-	(122,883)	(122,883)
	<u>-</u>	<u>(4,980)</u>	<u>(4,980)</u>
	-	(127,863)	(127,863)
	<u>(26,242,390)</u>	<u>(127,863)</u>	<u>(26,370,253)</u>
General revenues:			
Taxes	7,471,825	-	7,471,825
Investment earnings	83,906	7,004	90,910
State and formula grants	21,071,624	-	21,071,624
Miscellaneous	406,696	9,423	416,119
Transfers in (out)	<u>36,661</u>	<u>(36,661)</u>	<u>-</u>
<u>Total general revenues</u>	<u>29,070,712</u>	<u>(20,234)</u>	<u>29,050,478</u>
Change in net position	2,828,322	(148,097)	2,680,225
Net position (deficit) - beginning of year	23,197,728	115,397	23,313,125
Beginning net position restatement - GASB 75 implementation	<u>(12,828,450)</u>	<u>(664,384)</u>	<u>(13,492,834)</u>
Net position (deficit) - end of year	<u>13,197,600</u>	<u>(697,084)</u>	<u>12,500,516</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2018

	General <u>Fund</u>	Special <u>Revenue</u>	FSPK <u>Fund</u>	Construction <u>Fund</u>	Other Gov't <u>Funds</u>	Total Governmental <u>Funds</u>
Assets:						
Cash and investments	5,309,519	-	-	-	-	5,309,519
Cash and cash equivalents - restricted	-	-	6,025,900	547,248	-	6,573,148
Interfund receivable	1,553,485	-	-	-	-	1,553,485
Accounts receivable:						
Taxes - current	122,971	-	-	-	-	122,971
Taxes - delinquent	14,094	-	-	-	-	14,094
Other	103,611	59,063	-	1,162	-	163,836
Intergovernmental - state	12,596	-	-	-	-	12,596
Intergovernmental - federal	<u>7,626</u>	<u>1,532,411</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,540,037</u>
<u>Total assets</u>	<u>7,123,902</u>	<u>1,591,474</u>	<u>6,025,900</u>	<u>548,410</u>	<u>-</u>	<u>15,289,686</u>
Liabilities:						
Interfund payable	-	1,545,214	-	-	-	1,545,214
Accounts payable	216,879	46,260	-	-	-	263,139
Unearned revenues - governmental sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total liabilities</u>	<u>216,879</u>	<u>1,591,474</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,808,353</u>
Fund balances:						
Restricted for SFCC Escrow - current	-	-	6,817,215	-	-	6,817,215
Restricted - other	-	-	(791,315)	-	-	(791,315)
Restricted for future construction	-	-	-	548,410	-	548,410
Restricted for sick leave	162,617	-	-	-	-	162,617
Assigned - purchase obligations	74,043	-	-	-	-	74,043
Unassigned fund balance	<u>6,670,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,670,363</u>
<u>Total fund balances</u>	<u>6,907,023</u>	<u>-</u>	<u>6,025,900</u>	<u>548,410</u>	<u>-</u>	<u>13,481,333</u>
<u>Total liabilities</u> <u>and fund balances</u>	<u>7,123,902</u>	<u>1,591,474</u>	<u>6,025,900</u>	<u>548,410</u>	<u>-</u>	<u>15,289,686</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITIONAt June 30, 2018

Total fund balance per fund financial statements	13,481,333
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net position.	73,240,053
Deferred outflows - pension/OPEB resources are reported in government wide financial statements but not in fund financial statements.	4,518,722
Unamortized discounts on bonds payable are reported in government wide financial statement but not in fund financial statements.	119,349
Sick leave payable is not recognized in the fund financial statements.	(336,506)
Certain liabilities (such as bonds payable and KSBIT payable are not reported in this fund financial statement because they are not due and payable, and related interest and unamortized premiums on bonds payable, but are presented in the government-wide financial statements.	(49,617,188)
Deferred inflows - pension/OPEB resources are reported in government wide financial statements but not in fund financial statements.	(1,533,004)
Net pension/OPEB obligations are not due and payable in the current period, and therefore, are not reported in the fund financial statements.	<u>(26,675,159)</u>
Net position for governmental activities	<u><u>13,197,600</u></u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2018

	<u>General Fund</u>	<u>Special Revenue</u>	<u>FSPK Fund</u>	<u>Construction Fund</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
Revenues:						
From local sources:						
Taxes	6,256,535	-	1,215,290	-	-	7,471,825
Earnings on investments	56,466	-	-	27,440	-	83,906
Other local revenue	164,292	227,136	-	-	-	391,428
Intergovernmental - state	28,819,944	2,173,831	1,530,024	-	2,187,493	34,711,292
Intergovernmental - direct federal	-	64,135	-	-	-	64,135
Intergovernmental - indirect federal	<u>53,731</u>	<u>3,934,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,987,971</u>
<u>Total revenues</u>	<u>35,350,968</u>	<u>6,399,342</u>	<u>2,745,314</u>	<u>27,440</u>	<u>2,187,493</u>	<u>46,710,557</u>
Expenditures:						
Instructional	19,730,145	4,574,587	-	-	-	24,304,732
Student support services	1,698,500	26,745	-	-	-	1,725,245
Staff support services	938,461	1,067,185	-	-	-	2,005,646
District administration	832,691	1,120	-	-	-	833,811
School administration	2,085,793	-	-	-	-	2,085,793
Business support	1,128,179	-	-	-	-	1,128,179
Plant operations and maintenance	3,943,072	81,014	-	-	-	4,024,086
Student transportation	2,348,125	254,344	-	-	-	2,602,469
Food service operations	-	33,566	-	-	-	33,566
Community service activities	17,309	467,828	-	-	-	485,137
Facilities acquisition and construction	-	-	-	4,917,477	-	4,917,477
Debt service costs						
Principal	244,793	-	-	-	2,785,105	3,029,898
Interest	<u>39,153</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,002,145</u>	<u>1,041,298</u>
<u>Total expenditures</u>	<u>33,006,221</u>	<u>6,506,389</u>	<u>-</u>	<u>4,917,477</u>	<u>3,787,250</u>	<u>48,217,337</u>
Excess (deficit) of revenues over expenditures	<u>2,344,747</u>	<u>(107,047)</u>	<u>2,745,314</u>	<u>(4,890,037)</u>	<u>(1,599,757)</u>	<u>(1,506,780)</u>
Other financing sources (uses):						
Operating transfers in	387,276	107,047	-	1,586,257	1,950,372	4,030,952
Operating transfers out	(107,047)	-	(3,536,629)	-	(350,615)	(3,994,291)
Gains (losses) on assets	<u>15,268</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,268</u>
<u>Total other financing sources (uses)</u>	<u>295,497</u>	<u>107,047</u>	<u>(3,536,629)</u>	<u>1,586,257</u>	<u>1,599,757</u>	<u>51,929</u>
Changes in fund balance	2,640,244	-	(791,315)	(3,303,780)	-	(1,454,851)
Fund balance - July 1, 2017	<u>4,266,779</u>	<u>-</u>	<u>6,817,215</u>	<u>3,852,190</u>	<u>-</u>	<u>14,936,184</u>
Fund balance - June 30, 2018	<u>6,907,023</u>	<u>-</u>	<u>6,025,900</u>	<u>548,410</u>	<u>-</u>	<u>13,481,333</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2018

Net change in total fund balances per fund financial statements	(1,454,851)
Amounts reported for governmental activities in the statement of activities differences:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.	
Capital outlays are reported in fund financial statements	5,475,197
Depreciation is recorded in government wide financial statements	(2,410,338)
Interest expense on long-term debt is recognized in the fund financial statements when paid and accrued in the government wide financial statements of activities.	54,326
Accrued sick leave is recognized when incurred in the fund financial statements.	31,507
Recognition of premiums and amortization expense on bonded debt is not included in the fund financial statements.	(11,089)
Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position.	3,029,898
Payments on other long term financing, KSBIT, are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position.	28,037
Governmental funds report district pension/OPEB contributions as expenditures. However, in the statement of activities, the cost of these benefits earned net of employee contributions is reported as pension/OPEB expense.	<u>(1,914,365)</u>
Change in net position of governmental activities	<u><u>2,828,322</u></u>

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

At June 30, 2018

	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents - restricted	1,610,850	-	1,610,850
Accounts receivable	228,439	15,265	243,704
Inventories	<u>50,461</u>	<u>-</u>	<u>50,461</u>
<u>Total current assets</u>	<u>1,889,750</u>	<u>15,265</u>	<u>1,905,015</u>
- Noncurrent Assets -			
Depreciable capital assets - net	<u>134,012</u>	<u>-</u>	<u>134,012</u>
<u>Total assets</u>	<u>2,023,762</u>	<u>15,265</u>	<u>2,039,027</u>
Deferred Outflows of Resources			
Deferred outflows - pension/OPEB resources	<u>870,332</u>	<u>-</u>	<u>870,332</u>
<u>Total assets and deferred outflow of resources</u>	<u>2,894,094</u>	<u>15,265</u>	<u>2,909,359</u>
Liabilities:			
- Current Liabilities -			
Interfund payable	-	8,271	8,271
Accounts payable	<u>13,168</u>	<u>-</u>	<u>13,168</u>
<u>Total current liabilities</u>	<u>13,168</u>	<u>8,271</u>	<u>21,439</u>
- Noncurrent liabilities -			
Unfunded pension liability	2,466,208	-	2,466,208
Unfunded OPEB liability	<u>847,029</u>	<u>-</u>	<u>847,029</u>
<u>Total non-current liabilities</u>	<u>3,313,237</u>	<u>-</u>	<u>3,313,237</u>
<u>Total liabilities</u>	<u>3,326,405</u>	<u>8,271</u>	<u>3,334,676</u>
Deferred Inflows of Resources			
Deferred inflows - pension/OPEB resources	<u>271,767</u>	<u>-</u>	<u>271,767</u>
<u>Total liabilities and deferred inflow of resources</u>	<u>3,598,172</u>	<u>8,271</u>	<u>3,606,443</u>
Net position:			
Net investment in capital assets	134,012	-	134,012
Deficit - pension liability and resources, net	(2,714,672)	-	(2,714,672)
Restricted - other	<u>1,876,582</u>	<u>6,994</u>	<u>1,883,576</u>
<u>Total net position</u>	<u>(704,078)</u>	<u>6,994</u>	<u>(697,084)</u>
<u>Total liabilities, deferred inflow of resources and net position</u>	<u>2,894,094</u>	<u>15,265</u>	<u>2,909,359</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
PROPRIETARY FUNDSFor the Year Ended June 30, 2018

	Food Service <u>Fund</u>	Day Care <u>Fund</u>	<u>Total</u>
Operating revenues:			
Revenues from local sources	254,707	-	254,707
Federal grants	3,897,324	-	3,897,324
State grants/on-behalf payments	305,131	-	305,131
Donated commodities	173,482	-	173,482
Tuition from individuals	-	82,951	82,951
Student activities	-	9,423	9,423
	<u> </u>	<u> </u>	<u> </u>
<u>Total operating revenues</u>	<u>4,630,644</u>	<u>92,374</u>	<u>4,723,018</u>
Operating expense:			
Salaries and wages	2,091,808	79,789	2,171,597
Contract services	188,452	229	188,681
Materials and supplies	2,365,952	7,774	2,373,726
Depreciation	22,157	-	22,157
Other operating expenses	85,158	139	85,297
	<u> </u>	<u> </u>	<u> </u>
<u>Total operating expenses</u>	<u>4,753,527</u>	<u>87,931</u>	<u>4,841,458</u>
<u>Operating income (loss)</u>	<u>(122,883)</u>	<u>4,443</u>	<u>(118,440)</u>
Nonoperating Revenue/(Expense):			
Interest income	7,004	-	7,004
Transfers in (out)	(36,661)	-	(36,661)
	<u> </u>	<u> </u>	<u> </u>
<u>Total nonoperating revenue/(expense)</u>	<u>(29,657)</u>	<u>-</u>	<u>(29,657)</u>
<u>Change in net position</u>	<u>(152,540)</u>	<u>4,443</u>	<u>(148,097)</u>
Net Position (Deficit), July 1, 2017	112,846	2,551	115,397
Beginning Net Position restatement, recognition of GASB 75 Unfunded OPEB liability	(664,384)	-	(664,384)
	<u> </u>	<u> </u>	<u> </u>
	<u>(704,078)</u>	<u>6,994</u>	<u>(697,084)</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF CASH FLOWS – PROPRIETARY FUNDSFor the Year Ended June 30, 2018

	Food Service <u>Fund</u>	Day Care <u>Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	254,707	-	254,707
Federal and State grants	3,869,179	-	3,869,179
Tuition from individuals	-	85,426	85,426
Other local revenue	-	9,423	9,423
Cash paid to/for:			
Employees	(1,395,490)	(86,707)	(1,482,197)
Supplies/Contractual	(2,395,480)	(8,003)	(2,403,483)
Other activities	<u>(85,158)</u>	<u>(139)</u>	<u>(85,297)</u>
 <u>Net cash provided (used) by operating activities</u>	 <u>247,758</u>	 <u>-</u>	 <u>247,758</u>
Cash flows from capital and related financing activities:			
Change in capital assets (net)	<u>(30,210)</u>	<u>-</u>	<u>(30,210)</u>
Cash flows from investing activities:			
Interest income	<u>7,004</u>	<u>-</u>	<u>7,004</u>
Cash flows from financing activities:			
Transfers from (to) other funds	<u>(36,661)</u>	<u>-</u>	<u>(36,661)</u>
Net increase (decrease) in cash	187,891	-	187,891
Cash, beginning of year	<u>1,422,959</u>	<u>-</u>	<u>1,422,959</u>
Cash, end of year	<u>1,610,850</u>	<u>-</u>	<u>1,610,850</u>
Reconciliation of operating income (loss) to net cash provided (used) by operations:			
Operating income (loss)	(122,883)	4,443	(118,440)
Adjustments to reconcile operating income to cash provided (used) by operating activities:			
Depreciation	22,157	-	22,157
Prior period GASB 75 restatement	(664,384)	-	(664,384)
(Increase) decrease in deferred outflows - pension/OPEB resources	(545,804)	-	(545,804)
Increase (decrease) in deferred inflows - pension/OPEB resources	271,767	-	271,767
Increase (decrease) in net pension/OPEB liability	1,355,125	-	1,355,125
Changes in current assets/liabilities			
Accounts receivable	(53,662)	2,475	(51,187)
Inventory	(7,735)	-	(7,735)
Accounts payable	<u>(6,823)</u>	<u>(6,918)</u>	<u>(13,741)</u>
Net cash provided (used) by operating activities	<u>247,758</u>	<u>-</u>	<u>247,758</u>

The schedule reflects reconciliation for \$254,999 of non-cash on-behalf payments from the State related to personnel costs and \$195,786 related to donated commodities.

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET POSITION – ACTIVITY FUNDSAt June 30, 2018**Assets:**

Cash and cash equivalents	<u>366,247</u>
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<u>Total assets</u>	<u><u>366,247</u></u>
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Liabilities:

Accounts payable	-
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Due to individual student activity account funds	<u>366,247</u>
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<u>Total liabilities</u>	<u><u>366,247</u></u>
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Net Postion:

Restricted - student activities	<u>-</u>
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<u>Total liabilities and net position</u>	<u><u>366,247</u></u>
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See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTSJune 30, 2018NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Perry County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Perry County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Perry County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment or the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Perry County School District Finance Corporation – On July 12, 1988, the Perry County, Kentucky, Board of Education resolved to authorize the establishment of the Perry County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Perry County Board of Education also comprise the Corporations’ Board of Directors.

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) The District Wide Activity Multi Year fund, a special revenue fund, accounts for student activities on a district wide basis primarily for instruction and instructional staff support service purposes.
- (D) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

- (E) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recognized for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

The Childcare Fund accounts for revenues and expenditures related to daycare services and preschool activities.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Accounting Procedures for Kentucky School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements,

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Accounting (continued)

in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

The District implemented GASB Statement 65 which establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources provides changes in the determination of the major fund calculations and limiting the use of “deferred” in financial statements presentations.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and change in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred inflows.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2018, to finance the General Fund operations were \$.548 per \$100 valuation for real property, \$.548 per \$100 valuation for business personal property and \$.497 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting and Financial Reporting for Pensions and Other Post-Employment Benefits (OPEB)

GASB Statements Nos. 67 and 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* and GASB Statement No. 71 improves accounting and financial reporting by state and local governments for pensions and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, improves information provided by state and local governmental employers about financial support for pensions and OPEB that is provided by other entities. These Statements result from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions/OPEB with regard to providing decisions-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement was effective for fiscal years beginning after June 15, 2014 for pension reporting and fiscal year beginning after June 15, 2017 for OPEB, each have been implemented by the District.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars for tangible property with the exception of all computers and laptop equipment; printers and digital cameras greater than \$300; any additional items designated and, real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Interfund Balances and Activity

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2018.

The District has restricted \$162,617 of its fund balance for future sick leave payments.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are: Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP) and, expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with original maturity of 90 days or less, to be cash equivalents.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Cash and Cash Equivalents (Continued)

Cash and other assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the assets. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for acquisition and construction of capital improvements.

Inventories

Supplies and materials are charged to expenditures when purchased.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

GASB 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District's cash and cash equivalents was \$15,315,971. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

The funds of the District are deposited and invested under the terms of a contract, contents of which are set out in the bond of depositors for public school funds. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). All of the District's deposits were collateralized with securities held in the financial institution's names except deposits held at June 30, 2018 at Peoples Bank and Trust were under collateralized \$2,690,783. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held at a local financial institution. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018

Cash and cash equivalents at June 30, 2018 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Peoples Bank & Trust		
General operations	11,130,113	9,715,200
Buckhorn School	35,649	30,864
East Perry Elementary	81,645	69,950
West Perry Elementary	48,515	47,733
Leatherwood Elementary	7,682	7,648
Perry County Central High School	162,396	144,862
Robinson Elementary	29,743	29,418
R.W. Combs Elementary	17,166	15,793
Viper Elementary	19,650	19,979
Bond and Interest Accounts	<u>5,095</u>	<u>-</u>
<u>Total</u>	<u>11,537,654</u>	<u>10,081,447</u>
Traditional Bank		
General operations	<u>3,778,081</u>	<u>3,778,081</u>
US Bank		
General operations	<u>236</u>	<u>236</u>

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The original amount of each issue, the issue date and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
KISTA 2009	890,356	2.00% - 3.80%
Refunding February 2010	1,870,000	1.00% - 3.00%
Revenue January 2011	1,935,000	1.50% - 4.75%
Revenue 2nd Series December 2011	6,745,000	2.00% - 3.25%
QSCB Construction Bonds December 2011	13,300,000	5.00% - 5.00%
Refunding Revenue June 2012	3,360,000	1.10% - 2.25%
KISTA 2013	355,834	2.00% - 2.00%
Revenue Series September 2012	6,635,000	2.00% - 3.00%
Refunding Revenue July 2014	1,420,000	1.00% - 2.00%
Revenue Series February 2016	22,030,000	2.00% - 3.125%
Refunding Revenue Series May 2016	2,155,000	2.00% - 2.25%
KISTA 2017	1,047,424	2.55% - 2.55%

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (Continued)

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Perry County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt and are considered defeased by the District.

Perry County School District Finance Corporation issued Qualified School Construction Bonds, taxable series dated December 1, 2011 having a par amount of \$13,300,000. \$332,500 semi-annual interest payments are due every June and December through December 1, 2030. A federal tax credit for the same amount has been granted for each bondholder resulting in a subsidy/federal on-behalf payment for the School District. The action is a result of creation of qualified school construction bonds under the American Recovery and Reinvestment Act. The Act allows deferral of principal payments for up to 17 years and the creation of an escrow account as noted above. The bonds provide federal tax credits for bondholders in lieu of interest in order to significantly reduce the issuer's cost of borrowing. The Compliance Supplement acknowledges Qualified School Construction Bonds passed through the U.S. Department of Education are not covered by the single audit requirement and are not required to be included in the Schedule of Expenditures of Federal Awards.

Fiscal Year	QSCB Series 2011 Escrow		Expected Escrow	QSCB Series 2011 Interest	
	Payment			Total	Tax Credit
End	Board	KSFCC	Earnings		
2013	378,800	174,406	6,987	665,000	(665,000)
2014	371,065	182,141	21,227	665,000	(665,000)
2015	367,943	185,263	35,829	665,000	(665,000)
2016	368,343	184,863	50,802	665,000	(665,000)
2017	369,020	184,186	66,155	665,000	(665,000)
2018	373,136	180,070	81,899	665,000	(665,000)
2019	370,799	182,407	98,043	665,000	(665,000)
2020	378,801	174,405	114,598	665,000	(665,000)
2021	378,800	174,406	131,573	665,000	(665,000)
2022	378,800	174,406	148,980	665,000	(665,000)
2023	378,800	174,406	166,829	665,000	(665,000)
2024	378,801	174,405	185,132	665,000	(665,000)
2025	378,800	174,406	203,900	665,000	(665,000)
2026	378,800	174,406	223,145	665,000	(665,000)
2027	378,800	174,406	242,880	665,000	(665,000)
2028	378,800	174,405	263,116	665,000	(665,000)
2029	378,801	174,405	283,866	665,000	(665,000)
2030	366,213	186,993	305,144	665,000	(665,000)
2031	378,800	174,406	158,982	332,500	(332,500)
subtotal	7,132,122	3,378,791	2,789,087	12,302,500	(12,302,500)
realized	(2,228,307)	(1,090,929)	(262,899)	(3,990,000)	3,990,000
future	4,903,815	2,287,862	2,526,188	8,312,500	(8,312,500)
Principal payment due 12/1/2030			13,300,000		

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Debt issue costs are recognized as expenditures when incurred in governmental funds, government-wide and proprietary fund type financial statements.

In 1988, the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The following table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2018, for debt service (principal and interest excluding the QSCB Escrow payments) are as follows:

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>Board</u>	<u>KSFCC</u>	<u>Board</u>	<u>KSFCC</u>	
2018 - 19	1,232,065	1,156,335	583,580	444,882	3,416,862
2019 - 20	1,138,484	1,011,241	555,228	422,501	3,127,454
2020 - 21	1,196,536	1,031,545	529,235	402,196	3,159,512
2021 - 22	1,212,190	1,052,433	499,062	381,307	3,144,992
2022 - 23	1,253,827	1,074,175	470,710	359,566	3,158,278
2023 - 28	5,907,022	5,158,265	1,903,373	1,440,948	14,409,608
2028 - 33	6,480,867	4,734,133	1,006,331	748,191	12,969,522
2033 - 36	<u>2,854,339</u>	<u>2,280,661</u>	<u>175,266</u>	<u>143,053</u>	<u>5,453,319</u>
<u>Totals</u>	<u>21,275,330</u>	<u>17,498,788</u>	<u>5,722,785</u>	<u>4,342,644</u>	<u>48,839,547</u>

Following are changes in long-term debt including the QSCB escrow payments:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Current</u>
	<u>July 1, 2017</u>			<u>June 30, 2018</u>	<u>Principal</u>
KISTA Series 2009	202,581	-	(100,040)	102,541	102,541
Refunding February 2010	380,000	-	(215,000)	165,000	165,000
Revenue January 2011	1,595,000	-	(80,000)	1,515,000	85,000
Rev.2nd Series December 2011	5,390,000	-	(285,000)	5,105,000	290,000
QSCB Bonds December 2011	10,352,970	-	(635,105)	9,717,865	651,249
Refunding Revenue June 2012	2,330,000	-	(320,000)	2,010,000	325,000
KISTA Series 2013	208,906	-	(35,091)	173,815	35,975
Revenue Series September 2012	5,935,000	-	(185,000)	5,750,000	185,000
Revenue Series 2014	710,000	-	(235,000)	475,000	235,000
Revenue Series February 2016	21,395,000	-	(660,000)	20,735,000	675,000
Refunding Revenue May 2016	1,975,000	-	(170,000)	1,805,000	175,000
KISTA Series 2017	<u>1,047,424</u>	<u>-</u>	<u>(109,662)</u>	<u>937,762</u>	<u>114,884</u>
<u>Total</u>	<u>51,521,881</u>	<u>-</u>	<u>(3,029,898)</u>	<u>48,491,983</u>	<u>3,039,649</u>

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>
<u>Governmental Activities</u>				
NON-DEPRECIABLE				
Land	8,894,021	-	-	8,894,021
Construction in progress	<u>15,131,366</u>	<u>-</u>	<u>15,131,366</u>	<u>-</u>
	<u>24,025,387</u>	<u>-</u>	<u>15,131,366</u>	<u>8,894,021</u>
DEPRECIABLE				
Land improvements	3,174,953	-	-	3,174,953
Buildings and improvements	65,421,175	20,262,956	-	85,684,131
Technology equipment	4,775,791	109,605	-	4,885,396
Vehicles	5,382,714	-	-	5,382,714
General equipment	<u>2,036,517</u>	<u>-</u>	<u>5,900</u>	<u>2,030,617</u>
	<u>80,791,150</u>	<u>20,372,561</u>	<u>5,900</u>	<u>101,157,811</u>
<u>Totals at historical cost</u>	<u>104,816,537</u>	<u>20,372,561</u>	<u>15,137,266</u>	<u>110,051,832</u>
Less: accumulated depreciation				
Land and improvements	3,166,259	9,211	-	3,175,470
Buildings and improvements	21,930,782	1,894,884	237,798	23,587,868
Technology equipment	3,724,521	221,797	-	3,946,318
Vehicles	3,819,727	284,446	-	4,104,173
General equipment	<u>2,000,054</u>	<u>-</u>	<u>2,104</u>	<u>1,997,950</u>
<u>Total accumulated depreciation</u>	<u>34,641,343</u>	<u>2,410,338</u>	<u>239,902</u>	<u>36,811,779</u>
Governmental Activities				
<u>Capital Assets - Net</u>	<u>70,175,194</u>	<u>17,962,223</u>	<u>14,897,364</u>	<u>73,240,053</u>
<u>Business-Type Activities</u>				
Building and improvements	14,000	-	-	14,000
Technology	24,497	44,265	-	68,762
Food service and equipment	<u>892,502</u>	<u>-</u>	<u>-</u>	<u>892,502</u>
<u>Totals at historical cost</u>	<u>930,999</u>	<u>44,265</u>	<u>-</u>	<u>975,264</u>
Less: accumulated depreciation				
Building and improvements	5,080	440	-	5,520
Technology	18,437	22,752	-	41,189
Food service and equipment	<u>781,523</u>	<u>13,020</u>	<u>-</u>	<u>794,543</u>
<u>Total accumulated depreciation</u>	<u>805,040</u>	<u>36,212</u>	<u>-</u>	<u>841,252</u>
Business-Type Activities				
<u>Capital Assets - Net</u>	<u>125,959</u>	<u>8,053</u>	<u>-</u>	<u>134,012</u>

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE E – CAPITAL ASSETS (continued)

Depreciation expense was allocated to governmental functions as follows:

Instruction	2,053,219
Plant operation and management	72,673
Student transportation	<u>284,446</u>
<u>Total</u>	<u>2,410,338</u>

NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2018, as follows:

Year ending June 30:	
2019	241,793
2020	241,793
2021	81,796
2022	1,797
2023	<u>-</u>
Total Minimum Rentals	<u>567,179</u>

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

Summary of Significant Accounting Policies

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (KTRS) and additions to/deductions from KTRS's fiduciary net position have been determined on the same basis as they are reported by KTRS. For this purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan Description – Teaching-certified employees of the Perry County School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)-a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE G – RETIREMENT PLANS (continued)

Benefits Provided – For members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions – Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university members are required to contribute 12.855% of their salaries to the System.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.865% of salaries for members. For local school district and regional cooperative members whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE G – RETIREMENT PLANS (continued)**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:**

At June 30, 2018, Perry County School District did not report a net pension liability for its proportionate share of the net pension liability because the State of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its KTRS proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

State's proportionate share of the	
net pension liability associated with the	
District	\$ <u>135,166,549</u>

The net pension liabilities were measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the District's proportion was .5009% for KTRS.

For the year ended June 30, 2018, the District's government-wide financial statements reported KTRS pension expense of \$9,621,786. The District recognized no deferred outflows of resources, inflows of resources or unfunded liability for KTRS purposes.

Actuarial assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Significant assumptions used in the KTRS valuation were as follows:

- Investment rate of return – 7.5%, net of pension plan investment expense, including inflation.
- Projected salary increases – 3.50 – 7.30%, including inflation
- Inflation rate – 3.00%
- Municipal bond Index Rate – 3.01%
- Single Equivalent Interest Rate – 4.20%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2017.

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE G – RETIREMENT PLANS (continued)

The long term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KRTS' investment consultants is summarized in the following table:

<u>Asset Class</u>	<u>KTRS Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	42.0%	4.4%
International Equity	20.0%	5.3%
Fixed Income	16.0%	1.5%
Additional Categories	9.0%	3.6%
Real Estate	5.0%	4.4%
Private Equity	6.0%	6.7%
Cash	2.0%	0.8%
	100.0%	

Discount rate – The discount rate used to measure the total pension liability as of the measurement date was 4.49%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67 and assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2039 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). There was a change in the Municipal Bond Index Rate from the Prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at the Measurement Date of 4.49% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.01%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

The following table presents the net pension liability –proportionate share, calculated using the discount rate of 4.49%, as well as what the Commonwealth's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.49%) or 1 percentage point higher (5.49%) than the current rate:

	<u>1% Decrease (3.49%)</u>	<u>Current Discount Rate (4.49%)</u>	<u>1% Increase (5.49%)</u>
Commonwealth's proportionate share of			
District pension liability	\$ 167,550,291	\$ 135,166,549	\$ 108,588,210

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report.

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE G – RETIREMENT PLANS (continued)

County Employees Retirement System

Plan Description: Substantially all full-time classified employees of the District participate in the County Employees Retirement System (CERS). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (800) 928-4646 or at <https://kyret.ky.gov>.

Benefits Provided - Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions - Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and a district contribution of 19.18% of the employee's total compensation subject to contributions.

At June 30, 2018, the District reported the following for its proportionate share of net pension liability.

District's proportionate share of the net	
CERS pension liability	\$ 15,270,635

The net pension liability was measured as of June 30, 2017. The total pension liability used was based on an actuarial valuation as of June 30, 2017. At June 30, 2017 the District's proportion of the net pension liability based on contributions to CERS during fiscal year ended June 30, 2017 was .2609%.

For the year ended June 30, 2018, the District recognized pension expense of \$2,736,875. The District reported deferred outflows and inflows of resources as noted in the schedule below. Contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	18,941	387,634
Changes of assumptions	2,817,846	-
Net difference between projected and actual earnings on OPEB plan investments	1,209,416	1,020,536
Changes in proportion and differences between District contributions and proportionate share of contributions	201,624	-
District contributions subsequent to the measurement date	-	-
Total	4,247,827	1,408,170

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE G – RETIREMENT PLANS (continued)

Actuarial Methods and Assumptions - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2017. The financial reporting actuarial valuation as of June 30, 2017, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

- Valuation date, June 30, 2016
- Experience study – July 1, 2008 – June 30, 2013
- Actuarial Cost method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed
- Remaining Amortization Period – 28 years
- Asset Valuation method – 5-year smoothed market
- Inflation – 3.25%
- Salary increases, 4.00% including .75% wage inflation.
- Investment rate of return – 7.50%

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table with Scale BB to 2013. The target asset allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by CERS's investment consultant, are summarized as follows:

<u>Asset Class</u>	CERS Target <u>Allocation</u>	Long-term Expected Nominal <u>Return</u>
US Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	<u>2.0%</u>	1.88%
	100.0%	

Discount Rate – the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Deferred inflows and outflows and pension expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2017 actuarial valuations. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE G – RETIREMENT PLANS (continued)

The following presents the District's proportionate share of net pension liability calculated using the discount rate of 6.25% as well as the District's share if calculated using a rate 1% higher and 1% lower:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of net pension liability	\$ 19,259,572	\$ 15,270,635	\$ 11,933,920

The District previously reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments. This will be recognized as pension expense as follows:

Year	Total
2018	1,282,204
2019	1,219,217
2020	534,318
2021	(196,083)
Thereafter	-
	<u>2,839,656</u>

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

There were no payables to the pension plan at June 30, 2018.

Note H – OPEB PLANS

KENTUCKY TEACHER'S RETIREMENT SYSTEM
Summary of Significant Accounting Policies

Postemployment Benefits Other Than OPEBs (OPEB) - For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018Note H – OPEB PLANS (Continued)**General Information about the OPEB Plan**

Plan description – Teaching-certified employees of the Kentucky School District are provided OPEBs through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information>.

The State reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans. The following information is about the TRS plans:

Medical Insurance Plan

Plan description – In addition to the OPEB benefits described above, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

Benefits provided – To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Contributions – In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The State contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018Note H – OPEB PLANS (Continued)**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs**

At June 30, 2018, the Perry School District reported a liability of \$9,473,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was .2609 percent. The previous year measurement was not available.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	9,473,000
State's proportionate share of the net OPEB liability associated with the District	<u>7,738,000</u>
Total	<u><u>17,211,000</u></u>

For the year ended June 30, 2018, the District recognized OPEB expense and revenue of \$3,949,390 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	-	122,000
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>-</u>	<u>-</u>
Total	<u>-</u>	<u>122,000</u>

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note H – OPEB PLANS (Continued)

Of the total amount reported as deferred outflows of resources related to OPEB, contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year	Total
2019	(30,000)
2020	(30,000)
2021	(30,000)
2022	(30,000)
Thereafter	_____ -
	<u>(120,000)</u>

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and Older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B Premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Municipal Bond Index Rate	3.56%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class.

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note H – OPEB PLANS (Continued)

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
Global Equity	60.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	4.5%	4.0%
Private Equity	5.5%	6.6%
High Yield	10.0%	4.3%
Other Additional Catergoires*	10.0%	3.0%
Cash (LIBOR)	1.0%	0.5%
Total	<u>100.0%</u>	.

**Modeled as 50% High Yield and 50% Bank Loans.*

Discount rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 8.00%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage\point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<u>1% Decrease 7.00%</u>	<u>Current Discount Rate 8.00%</u>	<u>1% Increase 9.00%</u>
District's proportionate share of net OPEB liability	\$ 20,043,000	\$ 17,211,000	\$ 1,854,000

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note H – OPEB PLANS (Continued)

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1%</u> <u>Increase</u>
District's proportionate share of			
net OPEB liability	\$ 14,414,000	\$ 17,211,000	\$ 20,665,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

Life Insurance Plan

Plan description – Life Insurance Plan – TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

Benefits provided – TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the state.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the Perry School District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	-
State's proportionate share of the net OPEB liability associated with the District	<u>104,000</u>
Total	<u><u>104,000</u></u>

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018Note H – OPEB PLANS (Continued)

For the year ended June 30, 2018, the District recognized OPEB revenue and expense of \$7,317 for support provided by the State. At June 30, 2018, the District reported no deferred outflows of resources and deferred inflows of resources related to OPEBs from life insurance plans.

Any amount reported as deferred outflows of resources related to OPEB from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2018. No other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense.

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.56%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note H – OPEB PLANS (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class*</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Large Cap Equity	38.4%	4.3%
U.S. Small Cap Equity	2.6%	4.8%
Developed Int'l Equity	15.8%	5.2%
Emerging Markets Equity	4.2%	5.4%
Fixed income - Inv Grade	16.0%	1.2%
Real Estate	6.0%	4.0%
Private Equity	7.0%	6.6%
High Yield	2.0%	4.3%
Other Additional Categories**	7.0%	3.3%
Cash (LIBOR)	1.0%	0.5%
Total	<u>100.0%</u>	.

**As the LIF investment policy is to change, the above reflects the pension allocation and returns that achieve the target 7.5% long-term rate of return.*

***Modeled as 50% High Yield and 50% Bank Loans.*

Discount rate - The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
District's proportionate share of net OPEB liability	\$ 172,000	\$ 104,000	\$ 47,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note H – OPEB PLANS (Continued)

COUNTY EMPLOYEE RETIREMENT SYSTEM

General Information about the OPEB Plan

Plan description – Substantially all full-time employees of the District are provided OPEBs through the County Employees Retirement System of the State of Kentucky (CERS)—a cost-sharing multiple-employer defined benefit OPEB plan. CERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 78.520.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (800)928-4646 or at <https://kyret.ky.gov>.

The State reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the KRS Insurance Fund. The following information is about the KRS plans:

Medical Insurance Plan

Plan description – In addition to the OPEB benefits described above, KRS provides post-employment healthcare benefits to eligible members and dependents. The KRS Insurance benefit is a cost-sharing multiple employer defined benefit plan.

Benefits provided – Benefits under the plan will vary based on years of service and other factors as fully described in the plan documents.

Contributions – In order to fund the post-retirement healthcare benefit, participants hired on or after September 1, 2008 contribute 1% of total compensation subject to contribution for non-hazardous and hazardous duty positions. Also, the premiums collected from retirees as described in the plan documents and investment interest help meet the medical expenses of the plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the District reported a liability of \$5,244,761 for its proportionate share of the collective net CERS non-hazardous OPEB liability.. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District's proportion was .2609% for non-hazardous employees.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018Note H – OPEB PLANS (Continued)

The amount recognized by the District as its proportionate share of the OPEB liability was as follows:

District's proportionate share of the net OPEB liability	<u>5,244,761</u>
--	------------------

For the year ended June 30, 2018, the District recognized OPEB expense of \$599,965. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	14,567
Changes of assumptions	1,141,227	-
Net difference between projected and actual earnings on OPEB plan investments	-	247,865
Changes in proportion and differences between District contributions and proportionate share of contributions	-	12,169
District contributions subsequent to the measurement date	<u>-</u>	<u>-</u>
Total	<u>1,141,227</u>	<u>274,601</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

CERS GASB 75

Year	Total
2018	149,111
2019	149,111
2020	149,111
2021	149,111
2022	211,078
Thereafter	<u>21,073</u>
Total	<u>828,595</u>

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note H – OPEB PLANS (Continued)

Actuarial assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%
Projected salary increases	4.00%, average
Inflation rate	3.25%
Real Wage Growth	4.00%
Wage Inflation	3.25%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years
Municipal Bond Index Rate	3.56%
Discount Rate	5.84% non-hazardous, 5.96% hazardous

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with projection scale BB and set back one year for females. The RP-2000 Disabled Mortality Table set back four years for males is used for the period after disability retirement. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined by weighting the expected future real rates of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>CERS</u>	<u>Long-term</u>
	<u>Target</u>	<u>Expected</u>
	<u>Allocation</u>	<u>Return</u>
US Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	<u>2.0%</u>	1.88%
	100.0%	

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

Note H – OPEB PLANS (Continued)

Discount rate - The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous and 5.96% for hazardous. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.84% for non-hazardous employees as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84% for non-hazardous and 4.96% hazardous) or 1-percentage-point higher (6.84% for non-hazardous and 6.96% for hazardous) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Discount rate	<u>4.84%</u>	<u>5.84%</u>	<u>6.84%</u>
District's proportionate share of net OPEB liability	\$ 6,673,668	\$ 5,244,761	\$ 4,055,686

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Health Care Trend Rate			
District's proportionate share of net OPEB liability	\$ 4,023,002	\$ 5,244,761	\$ 6,832,977

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS financial report.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE I – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District was notified Kentucky School Board Insurance Trust dissolved fiscal year 2013. As a result, penalty payments to local participating Districts based on past premiums or past claims were required. The District's liability to the KSBIT Workers' Compensation Fund was \$224,293. The District paid \$56,073 of this balance in August 2014 and chose to pay the remaining balance of \$168,220 in six installments equal to 12.5% of the assessment, the first additional installment payment due on August 15, 2015, and the remaining installments due on each August 15 thereafter. The amount of the liability is recorded in the government wide financial statements. A liability is not reflected in the fund financial statements in accordance with GASB Interpretation No. 6, as governmental funds follow the current financial resources measurement focus (modified accrual basis of accounting).

NOTE J – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE K – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE L – RISK MANAGEMENT

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE M – DEFICIT OPERATING/FUND BALANCES

The following funds reflected deficit balances at June 30, 2018:

School Food Service Fund	704,078
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The following funds had operating expenditures in excess of revenues at June 30, 2018:

Special Revenue Funds	107,047
Perry County Central High School Activity Fund	5,275
East Perry Elementary Activity Fund	17,003
Leatherwood Elementary Activity Fund	596
Robinson Elementary Activity Fund	2,076
RW Combs Elementary Activity Fund	15,800
School Food Service Fund	122,883

NOTE N – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue	KETS	73,629
General Fund	Special Revenue	Community Education	5,000
General Fund	Special Revenue	Youth Football	28,418
Food Service	General Fund	Indirect Cost	36,661
Capital Outlay Fund	General Fund	Maintenance Costs	350,615
FSPK Fund	Debt Service	Debt retirement	1,950,372
FSPK Fund	Construction Fund	West Perry Construction	<u>1,586,257</u>
	Total		<u><u>4,030,952</u></u>

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

	<u>Receivable</u>	<u>Payable</u>
General Fund	1,553,485	-
Special Revenue Funds	-	1,545,214
Day Care Fund	-	<u>8,271</u>
<u>Totals</u>	<u><u>1,553,485</u></u>	<u><u>1,553,485</u></u>

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE Q – ON-BEHALF PAYMENTS

The following payments made by the state on behalf of employees of the District and for the benefit of the District are recognized in the government-wide financial statements as additional revenue and expenditures for the year ended June 30, 2018:

TRS GASB 68	4,802,383
TRS GASB 75	376,356
Health Insurance	3,949,390
Life Insurance	7,317
Administrative Fees	61,024
HRA/dental/vision	344,750
Technology	75,141
Debt Service	1,836,880
Less: Federal Reimbursement	<u>(342,998)</u>
Total	<u>11,110,243</u>

Payments are allocated among the following funds:

General Fund	8,993,751
Debt Service	1,836,878
Food Service Fund	<u>279,614</u>
Total	<u>11,110,243</u>

NOTE R – FUND BALANCE CLASSIFICATIONS

The District implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications include *nonspendable*, examples being prepaid items and inventory, and the following spendable fund balances - *restricted* – fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* – fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose. The standard affects fund balance reporting only and do not affect government-wide or proprietary fund financial statements.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE R – FUND BALANCE CLASSIFICATIONS (continued)

The following schedule reflects governmental fund balances at June 30, 2018:

Fund balances	General Fund	Special Revenue	FSPK Fund	Construction Fund
Restricted for SFCC Escrow - current	-	-	6,817,215	-
Restricted other	-	-	(791,315)	-
Restricted for future construction	-	-	-	548,410
Restricted for sick leave	162,617	-	-	-
Assigned - purchase obligations	74,043	-	-	-
Unassigned fund balance	<u>6,670,363</u>	<u>-</u>	<u>-</u>	<u>-</u>
 <u>Total fund balances</u>	 <u>6,907,023</u>	 <u>-</u>	 <u>6,025,900</u>	 <u>548,410</u>

The District's budget by State law must have a minimum 2% contingency. However, a separate contingency reserve fund has not been established. The District's Statement of Net Position reflects a reserve for fixed assets.

NOTE S – ANNUAL FINANCIAL REPORT DIFFERENCES

The following were changes between annual financial report as originally reported and adjusted balances:

	General Fund	Special Revenue Funds	Capital Outlay Fund	FSPK Building Fund	Construction Fund	Food Service Fund	Daycare Fund
Fund Balance/Net Position							
as originally reported to the Department of Education	6,878,387	-	-	6,025,900	547,248	10,725	6,621
Adjustment to Fund							
Balance/Retained Earnings							
(1) To record additional accounts receivable	64,735	3,191	-	-	1,162	224,537	-
(2) To adjust accounts payable	(36,099)	(3,191)	-	-	-	-	373
(3) To reclassify cash	(1,591,474)	1,591,474	-	-	-	-	-
(4) To recognize interfund receivable/payables	1,591,474	(1,591,474)	-	-	-	-	-
(5) To adjust inventories	-	-	-	-	-	7,736	-
(6) To adjust deferred outflows	-	-	-	-	-	545,804	-
(7) To adjust deferred inflows	-	-	-	-	-	(271,767)	-
(8) To adjust net pension liability	-	-	-	-	-	(1,355,125)	-
(9) To adjust net fixed assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,012</u>	<u>-</u>
Fund Balance/Net Position							
per fund financial statements							
at June 30, 2018	<u>6,907,023</u>	<u>-</u>	<u>-</u>	<u>6,025,900</u>	<u>548,410</u>	<u>(704,078)</u>	<u>6,994</u>

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2018NOTE T – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The District has implemented the following new accounting pronouncements, where applicable:

- GASB Statement No. 75—Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for the District’s fiscal year ending June 30, 2018.
- GASB Statement No. 81—Irrevocable Split-Interest Agreements, effective for the District’s fiscal year ending June 30, 2018.
- GASB Statement No. 85—Omnibus 2017, effective for the District’s fiscal year ending June 30, 2018.
- GASB Statement No. 86—Certain Debt Extinguishment Issues, effective for the District’s fiscal year ending June 30, 2018.

The adoption of GASB Statement Numbers 81, 85 and 86 did not have an impact on the District’s financial position or results of operations. The adoption of GASB Statement No. 75 resulted in a statement of net position decrease in the Government-Wide Financial Statements of (\$13,492,834) as discussed in Note U.

The District will adopt the following new accounting pronouncements in future years:

- GASB Statement No. 83—Certain Asset Retirement Obligations, Effective for the District’s fiscal year ending June 30, 2019.
- GASB Statement No. 84—Fiduciary Activities, effective for the District’s fiscal year ending June 30, 2020.
- GASB Statement No., 87—Leases, effective for the District’s fiscal year ending June 30, 2021.

The impact of these pronouncements on the District’s financial statements has not been determined.

NOTE U – BEGINNING NET POSITION RESTATEMENT

Government wide financial statements beginning net position was reduced \$13,492,834 which included \$664,384 recognized in proprietary funds and \$12,828,450 in governmental funds to reflect the District’s actuarially determined beginning balance portion of CERS and KTRS OPEB liability in accordance with GASB Statement No.75.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
From local sources:				
Taxes	7,050,000	5,850,000	6,256,535	406,535
Earnings on investments	30,000	30,000	56,466	26,466
Other local revenue	30,000	30,000	164,292	134,292
Intergovernmental - state	24,232,000	25,653,201	28,819,944	3,166,743
Intergovernmental - indirect federal	50,000	50,000	53,731	3,731
<u>Total revenues</u>	<u>31,392,000</u>	<u>31,613,201</u>	<u>35,350,968</u>	<u>3,737,767</u>
Expenditures:				
Instructional	18,700,778	18,587,515	19,730,145	(1,142,630)
Student support services	1,592,392	1,592,392	1,698,500	(106,108)
Staff support services	665,492	664,492	938,461	(273,969)
District administration	1,056,523	1,016,778	832,691	184,087
School administration	2,010,144	2,023,719	2,085,793	(62,074)
Business support	988,258	951,758	1,128,179	(176,421)
Plant operations and management	4,328,443	4,224,562	3,943,072	281,490
Student transportation	2,398,694	2,384,885	2,348,125	36,760
Community service activities	6,205	6,205	17,309	(11,104)
Debt service and miscellaneous	-	283,946	283,946	-
Contingencies	2,397,778	3,369,539	-	3,369,539
<u>Total expenditures</u>	<u>34,144,707</u>	<u>35,105,791</u>	<u>33,006,221</u>	<u>2,099,570</u>
Excess (deficit) of revenues over expenditures	<u>(2,752,707)</u>	<u>(3,492,590)</u>	<u>2,344,747</u>	<u>5,837,337</u>
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Operating transfers in	30,000	30,000	387,276	357,276
Operating transfers out	(85,000)	(113,418)	(107,047)	6,371
Gains/losses on assets	-	-	15,268	15,268
<u>Total other financing sources (uses)</u>	<u>(55,000)</u>	<u>(83,418)</u>	<u>295,497</u>	<u>378,915</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(2,807,707)</u>	<u>(3,576,008)</u>	<u>2,640,244</u>	<u>6,216,252</u>
Fund balance - July 1, 2017	<u>2,807,707</u>	<u>3,576,008</u>	<u>4,104,162</u>	<u>528,154</u>
Fund balance - June 30, 2018	<u>-</u>	<u>-</u>	<u>6,744,406</u>	<u>6,744,406</u>

Ending fund balance represents unassigned fund balance at June 30, 2018 without regard to the District's restriction for sick leave in the amount of \$162,617.

See notes to financial statements and independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDSFor the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
From local sources	8,000	170,596	227,136	56,540
Intergovernmental - state	2,323,011	2,609,896	2,173,831	(436,065)
Intergovernmental - direct federal	63,762	63,762	64,135	373
Intergovernmental - indirect federal	<u>3,150,950</u>	<u>3,209,400</u>	<u>3,934,240</u>	<u>724,840</u>
<u>Total revenues</u>	<u>5,545,723</u>	<u>6,053,654</u>	<u>6,399,342</u>	<u>345,688</u>
Expenditures:				
Instructional	4,381,636	4,618,973	4,574,587	44,386
Student support services	28,660	24,084	26,745	(2,661)
Staff support services	444,092	281,604	1,067,185	(785,581)
District administration support services	-	-	1,120	(1,120)
Plant operations and maintenance	78,404	78,404	81,014	(2,610)
Student transportation	244,575	230,181	254,344	(24,163)
Food service operation	-	-	33,566	(33,566)
Community service activities	<u>453,356</u>	<u>906,108</u>	<u>467,828</u>	<u>438,280</u>
<u>Total expenditures</u>	<u>5,630,723</u>	<u>6,139,354</u>	<u>6,506,389</u>	<u>(367,035)</u>
Excess (deficit) of revenues over expenditures	<u>(85,000)</u>	<u>(85,700)</u>	<u>(107,047)</u>	<u>(9,630)</u>
Other financing sources (uses):				
Operating transfers in	<u>85,000</u>	<u>85,000</u>	<u>107,047</u>	<u>(22,047)</u>
<u>Total other financing sources (uses)</u>	<u>85,000</u>	<u>85,000</u>	<u>107,047</u>	<u>(22,047)</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	-	(700)	-	-
Fund balance - July 1, 2017	-	-	-	-
Fund balance - June 30, 2018	<u>-</u>	<u>(700)</u>	<u>-</u>	<u>-</u>

See notes to financial statements and independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSCHEDULES OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULES OF EMPLOYER CONTRIBUTIONSFor the Year Ended June 30, 2018**Employer's Proportionate Share of Net Pension Liability**

	<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>	
	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>
Employer's proportion of the net pension liability	0.5009%	0.2609%	0.5128%	0.2576%	0.5328%	0.2531%	0.5661%	0.2491%
Employer's proportionate share of the net pension liability	-	15,270,635	-	12,682,075	-	10,881,349	-	8,081,000
State's proportionate share of the net pension liability	135,166,549	-	151,262,983	-	123,987,658	-	116,329,487	-
Employer's covered employee payroll	16,267,535	5,921,161	17,194,329	6,425,264	17,579,831	6,213,345	17,381,809	6,254,810
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	831%	258%	880%	197%	705%	175%	669%	129%
Plan fiduciary net position as a percentage of the total pension liability	39.8%	52.4%	42.5%	60.0%	42.5%	60.0%	45.6%	66.8%

Employer's Contributions

	<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>	
	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>
Contractually required contribution	4,802,384	1,131,257	2,488,898	1,192,467	2,564,235	1,265,300	3,419,858	1,079,458
Contributions in relation to the contractually required contribution	4,802,384	1,131,257	2,488,898	1,192,467	2,564,235	1,224,238	3,419,858	1,079,458
Contribution deficiency (excess)	-	-	-	-	-	41,062	-	-
District's covered employee payroll	16,267,535	5,921,161	17,194,329	6,213,345	17,579,831	6,213,345	17,381,809	6,254,810
Contributions as a percentage of covered employee payroll	29.52%	19.11%	14.48%	19.19%	14.59%	19.70%	19.67%	17.26%

Change of benefit terms - None.

Change of assumptions - \$2,817,846 for CERS.

See notes to financial statements and independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSCHEDULES OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
AND SCHEDULES OF EMPLOYER CONTRIBUTIONSFor the Year Ended June 30, 2018**Employer's Proportionate Share of Net OPEB Liability - Medical Insurance Fund**

	<u>2018</u>	
	<u>KTRS</u>	<u>CERS</u>
Employer's proportion of the net OPEB liability	0.4827%	0.2609%
Employer's proportionate share of the net OPEB liability	9,473,000	5,244,761
State's proportionate share of the net OPEB liability	7,738,000	-
Employer's covered employee payroll	16,267,535	5,921,161
Employer's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	58%	89%
Plan fiduciary net position as a percentage of the total OPEB liability	52.4%	59.0%

Employer's Contributions

	<u>2018</u>	
	<u>KTRS</u>	<u>CERS</u>
Contractually required contribution	826,969	333,360
Contributions in relation to the contractually required contribution	826,969	333,360
Contribution deficiency (excess)	-	-
District's covered employee payroll	16,267,535	5,921,161
Contributions as a percentage of covered employee payroll	5.08%	5.63%

PERRY COUNTY SCHOOL DISTRICT

SCHEDULES OF EMPLOYER'S SHARE OF NET OPEB LIABILITY (Continued)

For the Year Ended June 30, 2018

Notes to Required Supplementary Information

Changes of benefit terms – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the state will only finance, via its KEHP “Shared Responsibility” contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

Methods and assumptions used in the actuarially determined contributions – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2017:

Valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years, Open
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% - 7.20%
Discount rate	8.00%
Health care cost trends	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Under age 65 claims	the current premium charged by KEHP is used as the base cost and is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized).

See notes to financial statements and independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2018

	<u>SEEK Capital Outlay Fund</u>	<u>Debt Service Funds</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	-	-	-
Accounts receivable	-	-	-
Total assets	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities and fund balances:			
Liabilities:			
Accounts payable	-	-	-
Fund balances:			
Restricted for future constrution	-	-	-
Unassigned fund balance	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>-</u>	<u>-</u>	<u>-</u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2018

	SEEK Capital Outlay <u>Fund</u>	Debt Service <u>Funds</u>	<u>Total</u>
Revenues:			
Intergovernmental - State	<u>350,615</u>	<u>1,836,878</u>	<u>2,187,493</u>
<u>Total revenues</u>	<u>350,615</u>	<u>1,836,878</u>	<u>2,187,493</u>
Expenditures:			
Debt service:			
Building acquisitions and construction	-	-	-
Principal	-	2,785,105	2,785,105
Interest	<u>-</u>	<u>1,002,145</u>	<u>1,002,145</u>
<u>Total expenditures</u>	<u>-</u>	<u>3,787,250</u>	<u>3,787,250</u>
Excess (deficit) of revenues over expenditures	<u>350,615</u>	<u>(1,950,372)</u>	<u>(1,599,757)</u>
Other financing sources (uses):			
Interests on investments	-	-	-
Operating transfers in	-	1,950,372	1,950,372
Operating transfers out	<u>(350,615)</u>	<u>-</u>	<u>(350,615)</u>
<u>Total other financing sources (uses)</u>	<u>(350,615)</u>	<u>1,950,372</u>	<u>1,599,757</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-
Fund balance, July 1, 2017	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2018	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEPERRY COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2018

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Interfund Transfers</u>	Excess (Deficit) of Revenues over <u>Expenditures</u>	<u>Fund Balance July 1, 2017</u>	<u>Fund Balance June 30, 2018</u>
General	13,946	11,126	3,242	6,062	9,400	15,462
Locker	1,250	-	-	1,250	2,083	3,333
Lost textbooks	-	-	-	-	1,816	1,816
Parking tags	100	-	-	100	-	100
Pepsi lounge	2,074	2,001	(52)	21	286	307
Pepsi lobby	2,004	136	-	1,868	26	1,894
Breaktime vending	130	-	-	130	1,350	1,480
Donated	-	-	-	-	519	519
District volleyball	2,215	1,464	(751)	-	-	-
Breaktime vend lounge	121	267	51	(95)	95	-
Janitorial	-	880	877	(3)	3	-
Board travel	20,000	9	(19,158)	833	2,630	3,463
Regional soccer	6,345	2,470	(3,875)	-	-	-
Soccer state	3,763	3,760	(3)	-	-	-
WYMT hospitality	-	-	(2,241)	(2,241)	2,241	-
Commodore snack shack	40,885	40,998	-	(113)	9,548	9,435
All A Classic Tourney	-	-	(120)	(120)	1,444	1,324
Gate receipts	31,001	3,524	(26,900)	577	1,447	2,024
Football	26,500	41,452	7,500	(7,452)	27,841	20,389
Track	8,993	7,111	2,200	4,082	2,817	6,899
Boys basketball	34,436	39,022	10,019	5,433	12,273	17,706
Girls basketball	26,798	49,212	10,138	(12,276)	12,276	-
Wrestling	3,791	14,451	2,700	(7,960)	8,417	457
Volleyball	12,944	14,468	3,829	2,305	2,847	5,152
Middle school volleyball	-	-	(2,079)	(2,079)	2,079	-
Golf	-	-	-	-	413	413
Cross country	-	1,883	2,000	117	98	215
Baseball	22,300	31,882	5,693	(3,889)	3,995	106
Softball	28,650	30,276	4,900	3,274	3,351	6,625
Boys varsity cheerleaders	38,189	44,418	2,187	(4,042)	4,042	-

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEPERRY COUNTY HIGH SCHOOL ACTIVITY FUND (CONTINUED)For the Year Ended June 30, 2018

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Interfund Transfers</u>	Excess (Deficit) of <u>Revenues over Expenditures</u>	<u>Fund Balance July 1, 2017</u>	<u>Fund Balance June 30, 2018</u>
Tennis	239	432	600	407	110	517
Archery team	7,634	7,548	500	586	931	1,517
Fishing team	1,600	1,520	500	580	370	950
Soccer	15,503	19,856	4,353	-	-	-
Regional tourney	33,761	25,285	(8,476)	-	-	-
District baseball tourney	2,360	1,670	(690)	-	-	-
Academics	-	1,027	-	(1,027)	1,795	768
Band	10,603	10,516	1,000	1,087	1,335	2,422
Business/FBLA	4,626	4,552	-	74	450	524
Chorus	416	443	3	(24)	24	-
Commodore vault	300	300	-	-	537	537
Drama	8,206	8,330	-	(124)	159	35
FCCLA	700	395	-	305	212	517
FFA	1,964	2,313	-	(349)	827	478
Prayer Club	15	20	5	-	-	-
Guidance	848	903	-	(55)	1,728	1,673
JROTC	6,941	13,572	2,100	(4,531)	7,557	3,026
Juniors	12,522	13,360	-	(838)	1,006	168
Library	-	-	-	-	1,429	1,429
Commodore corner	523	492	-	31	-	31
National art	75	334	-	(259)	755	496
Yearbook	2,270	350	-	1,920	2,220	4,140
Seniors	82,181	82,761	-	(580)	1,813	1,233
Speech Team	-	100	100	-	-	-
Overview tech	-	-	-	-	27	27
France trip/social studies	355	355	-	-	-	-
YSC	913	468	(152)	293	2	295
Tablets	-	-	-	-	690	690
Student council/pep club	-	-	-	-	83	83
Upike college classes	-	-	-	-	1,100	1,100
HCTC-biomedical class	11,447	-	-	11,447	-	11,447
State tournament	-	-	-	-	11,640	11,640
<u>Totals</u>	<u>532,437</u>	<u>537,712</u>	<u>-</u>	<u>(5,275)</u>	<u>150,137</u>	<u>144,862</u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEBUCKHORN SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2018

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Interfund Transfers</u>	Excess (Deficit) of	<u>Fund Balance July 1, 2017</u>	<u>Fund Balance June 30, 2018</u>
				<u>Revenues over Expenditures</u>		
General fund	16,688	13,209	(3,608)	(129)	129	-
Vending machines	1,470	-	(1,660)	(190)	190	-
Employee workroom	2,040	3,505	210	(1,255)	1,572	317
Textbook	-	-	-	-	78	78
High school academics	1,500	1,058	-	442	583	1,025
FFA	1,547	2,222	(2,000)	(2,675)	3,773	1,098
FBLA club	4,643	4,507	-	136	598	734
Paw Prints	-	-	-	-	77	77
Baseball	7,619	9,596	1,977	-	-	-
Archery	656	669	7	(6)	175	169
Elementary cross country	-	95	95	-	-	-
Elem 3th & 4th basketball	-	-	(512)	(512)	511	(1)
Elem boys basketball	4,758	3,670	-	1,088	534	1,622
Elem boys cheerleader	-	-	(449)	(449)	449	-
Elem girls basketball	9,435	6,980	-	2,455	672	3,127
Elem cheerleader	2,191	80	(2,111)	-	-	-
H.S. boys basketball	43,181	32,114	(790)	10,277	-	10,277
H.S. cross county	-	-	-	-	-	-
H.S. girls basketball	12,714	14,795	-	(2,081)	2,633	552
H.S. cheerleaders	3,305	7,622	4,317	-	-	-
Volleyball	5,232	3,570	(1,661)	1	-	1
Soccer	2,034	3,930	1,897	1	-	1
Softball	344	6,677	6,333	-	-	-
Fellow Christian Athletics	-	-	-	-	201	201
Educators rising	1,918	1,918	-	-	-	-
Library	3,349	3,471	-	(122)	312	190
Reimbursement	2,700	2,307	-	393	85	478
Family resource center	1,229	246	-	983	2	985
FRYSC Children Inc.	2,961	5,135	-	(2,174)	3,944	1,770
8th Grade cap and gown	780	675	(570)	(465)	570	105
8th Grade trip	9,606	8,353	(1,560)	(307)	307	-
11th Grade - Prom	1,395	2,821	1,783	357	(357)	-
12th Grade - Cap and Gown	815	810	-	5	-	5
Senior trip 2017-18	26,387	27,567	1,180	-	-	-
Guidance - records	390	-	-	390	503	893
Donations	800	800	-	-	1,000	1,000
Tablet fund	1,120	-	(2,667)	(1,547)	6,455	4,908
Staff incentives	-	-	(211)	(211)	211	-
Scholarships	2,000	1,500	-	500	750	1,250
Playground Improvements	-	-	-	-	2	2
<u>Totals</u>	<u>174,807</u>	<u>169,902</u>	<u>-</u>	<u>4,905</u>	<u>25,959</u>	<u>30,864</u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2018

	East Perry Elementary	Leatherwood Elementary	Robinson Elementary	R.W. Combs Elementary	Viper Elementary	West Perry Elementary	Total (Memorandum Only)
<u>REVENUES:</u>							
Activity funds	159,543	71,518	67,137	130,534	102,718	234,236	765,686
<u>EXPENDITURES:</u>							
Activity funds	<u>176,546</u>	<u>72,114</u>	<u>69,213</u>	<u>146,334</u>	<u>98,672</u>	<u>224,964</u>	<u>787,843</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	(17,003)	(596)	(2,076)	(15,800)	4,046	9,272	(22,157)
Fund Balance, July 1, 2017	<u>86,953</u>	<u>8,244</u>	<u>31,494</u>	<u>31,593</u>	<u>15,933</u>	<u>28,069</u>	<u>202,286</u>
Fund Balance, June 30, 2018	<u><u>69,950</u></u>	<u><u>7,648</u></u>	<u><u>29,418</u></u>	<u><u>15,793</u></u>	<u><u>19,979</u></u>	<u><u>37,341</u></u>	<u><u>180,129</u></u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Subrecipient Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
<i>- Child Nutrition Cluster -</i>				
School Breakfast Program	10.553	7760005	N/A	<u>725,364</u>
School Lunch Program	10.555	7750002	N/A	<u>1,884,482</u>
Summer Food Service Program for Children	10.559	7690023	N/A	362,086
	10.559	7690024	N/A	<u>37,468</u>
				<u>399,554</u>
Passed through State Department of Agriculture:				
National School Lunch Program	10.555	097-0100	N/A	<u>173,482</u>
<u>Total Child Nutrition Cluster</u>				<u>3,182,882</u>
Passed through State Department of Education:				
Fruit and Vegetable Program	10.582	7720012	N/A	<u>88,452</u>
Child and Adult Care Food Program (CACFP)	10.558	7790021	N/A	547,801
	10.558	7800016	N/A	<u>25,639</u>
				<u>573,440</u>
Farm to School Grant Program	10.575	233BI	N/A	<u>9,396</u>
<u>Total U.S. Department of Agriculture</u>				<u>3,854,170</u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Subrecipient Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
Title I	84.010	310C	N/A	183,547
	84.010	310B	N/A	6,307
	84.010	310D	N/A	1,613,501
Title I School Improvement	84.010	320A	N/A	446
<u>Total Title I</u>				<u>1,803,801</u>
 <i>- Special Education Cluster -</i>				
IDEA - B Basic	84.027	337B	N/A	57
	84.027	337C	N/A	394,889
	84.027	337D	N/A	620,484
IDEA -B Preschool	84.173	343D	N/A	29,560
Total Special Education Cluster				<u>1,044,990</u>
 Vocational Education - Basic				
	84.048	348C	N/A	9,667
	84.048	348B	N/A	585
	84.048	348D	N/A	26,677
	84.048	348BA	N/A	2,165
	84.048	348CA	N/A	2,517
				<u>41,611</u>
 Rural and Low Income School Program				
	84.358	350D	N/A	42,010
	84.358	350C	N/A	38,216
				<u>80,226</u>
 Teacher Quality Grant				
	84.367	401C	N/A	125,411
	84.367	401D	N/A	130,933
				<u>256,344</u>
 Passed through Berea College:				
GEAR-UP	84.334A	379CG	N/A	262,226
	84.334A	379CA	N/A	2,869
	84.334A	379BA	N/A	401
	84.334A	379DA	N/A	308,979
	84.334A	379CC	N/A	1,651
				<u>576,126</u>
 <u>Total Department of Education</u>				 <u>3,803,098</u>

See independent auditor's report.

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Subrecipient Amount</u>	<u>Program Expenditures</u>
<u>Appalachian Regional Commission</u>				
Passed through Morehead State University				
Appalachian Higher Education network (KY AHED)	23.011	688C	N/A	119
				<u>119</u>
<u>US Department of Defense</u>				
Direct				
JROTC	12.000	504d	N/A	<u>60,732</u>
<u>Total Federal Awards Expended</u>				<u><u>7,718,119</u></u>

Note 1—Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Perry County School District, under programs of the federal government for the year ended June 30, 2018 in accordance with the requirements of Title 2 U.S. code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Perry County School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Perry County School District.

Note 2—Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Perry County School District has not elected to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

*Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

Note 3 – Non-Monetary Assistance

Non-monetary assistance CFDA #10.555, \$173,482, is reported in the schedule at the fair value of the food donations disbursed.

See independent auditor's report.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State Committee for School District Audits
Members of Perry County Board of Education

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits in the Kentucky Public School Districts Audit Contract Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Perry County School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Perry County School District's basic financial statements, and have issued our report thereon dated November 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Perry County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Perry County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Perry County School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Perry County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Perry County School District, in a separate letter dated November 15, 2018. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Kentucky Public School District's Audit Contract and Requirements – State Compliance Requirements.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 15, 2018

Chris Gooch
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To Board Members
Perry County School District

Report on Compliance for Each Major Federal Program

We have audited Perry County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Perry County School District's major federal programs for the year ended June 30, 2018. Perry County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Perry County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Perry County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Perry County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Perry County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Perry County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Perry County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Perry County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 15, 2018

PERRY COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2018

- FINDING RELATED TO THE FINANCIAL STATEMENTS -

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2018- SUMMARY OF AUDIT RESULTS -

1. We have issued an unmodified opinion on the financial statements.
2. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. We have issued an unmodified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under section 200.516 of Title 2 U.S. Code of Federal Regulations Part 200.
7. Perry County School District had the following major programs:

U.S. Department of Education
 - Passed through State Department of Education -
 Title I
 CFDA Number 84.010

U.S. Department of Education
 - Passed through State Department of Education –
Special Education Cluster
 IDEA-B Basic
 CFDA Number 84.027
 IDEA-B Preschool
 CFDA Number 84.173

8. The dollar threshold used to distinguish between major and non-major programs was \$750,000.
9. The auditee qualified as a low-risk auditee under section 200.520 of Title 2 U.S. Code of Federal Regulations Part 200.

PERRY COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)For the Year Ended June 30, 2018

- FINDING RELATED TO THE FINANCIAL STATEMENTS -

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

Chris Gooch
Certified Public Accountant
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Perry County Board of Education
and Management
Hazard, Kentucky

In planning and performing our audit of the financial statements of Perry County School District for the year ended June 30, 2018, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated November 15, 2018, contains our report on the District's internal control structure. This letter does not affect our report dated November 15, 2018 on the financial statements of the Perry County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink, appearing to read "Chris Gooch", with a long horizontal flourish extending to the right.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 15, 2018

PERRY COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

For the Year Ended June 30, 2018

Prior Year Comments

1. Testing of school food service milk invoices noted established bid rates used for payment at two schools – East Perry and Perry County Central High School, were incorrect and as a result the District overpaid its milk vendor \$8,506.
Management response:
The District will receive reimbursement from the vendor. The District has emphasized to applicable personnel the importance of reviewing bid prices per invoices with established bid rates.
2. When examining District invoices, we noted sales tax paid, \$990.97, Firestone Building Products.
Management response:
The District has received refund from the vendor. Management has directed applicable personnel to review invoices carefully to avoid payments of this nature occurring.
3. Management should periodically review its District wide fixed asset listing to determine if idle or impaired assets are included and make appropriate assessments and adjustments.
Management response:
District personnel will periodically review its fixed asset listing and determine if idle or impaired assets are included and adjustments warranted.
4. The District should periodically assess Child Care accounts receivable and perform follow up procedures based on its District policies for collections and establishing allowance accounts.
Management response:
District personnel will consider more efficient ways to monitor Child Care billings, collections and related allowance adjustments.

Current Year Comments

1. Activity fund annual financial reports ending cash balances did not agree to reconciled cash balances at four elementary schools – Viper, RW Combs, Robinson and Leatherwood, when presented for audit.
Management response:
School personnel provided corrected reports to auditors. Management will provide training regarding end of year reporting for activity funds including the importance of reconciling to underlying documentation.
2. Three negative individual balances were noted at year end – Viper Elementary individual activity funds. In addition, Leatherwood Elementary, a payment, #4450, \$1,765.58, was paid over ninety days.
Management response:
School personnel will monitor individual activity funds and advise fund sponsors of its role to assure balances are not subsidized by other funds. Management will instruct applicable personnel regarding procurement practices, assuring obligations incur only when funds are available.